



U.S. Department of Energy

Energy Efficiency and Renewable Energy

Bringing you a prosperous future where energy is clean, abundant, reliable, and affordable

Federal Energy Management Program

Agency ESCO Forum

March 11, 2009

Final Proposal

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The Final Proposal

- Integration of the IDIQ, TO RFP, IGA, and financing terms
- Technical aspects
 - ECMs — feasibility, energy savings calculations, implementation costs, annual cost savings
 - M&V methodology and energy/O&M baselines
 - Project intent document and Cx plan outline
 - Management plan
- Pricing
 - TO schedules
 - Level of supporting detail as per TO RFP
 - Financing Summary



Contents of Final Proposal

- Technical
 - ECMs
 - M&V Plan
 - Commissioning Plan
- Management Approach
- Pricing (next module)
- Financing (next module)



Management Plan

- ESCO's organizational structure
- Risk & Responsibility Matrix
- Proposed level of O&M services
 - Does it address site needs?
- Proposed repair and replacement services
 - Do responsibilities meet site requirements?
- Project management approach and project timeline
 - Are they well-suited for successful implementation?



Energy and Cost Savings

- For each ECM, the final proposal must provide
 - Projected energy savings
 - Projected energy cost savings
 - Projected energy-related cost savings
- Review estimated savings calculations carefully
 - Basis of contractually guaranteed savings



Estimated Savings and Guaranteed Savings

- ESCOs (almost) never guarantee 100% of estimated
- Guaranteeing less than 100% of estimated savings is a safety net for ESCO and agency
- Portion guaranteed depends on complexity of ECMs, predictability of savings, M&V type, O&M/R&R, other



O&M Savings

- Defined: A reduction in costs for operation and/or maintenance resulting from installation of new ECMs
- Always verify that ESCO complied with agency guidance on treatment of O&M savings
- Savings for both labor and materials are acceptable



Task Order Financial Schedules

They're the Real Deal

***All costs appear in the TO
schedules, and we will show you
where.***



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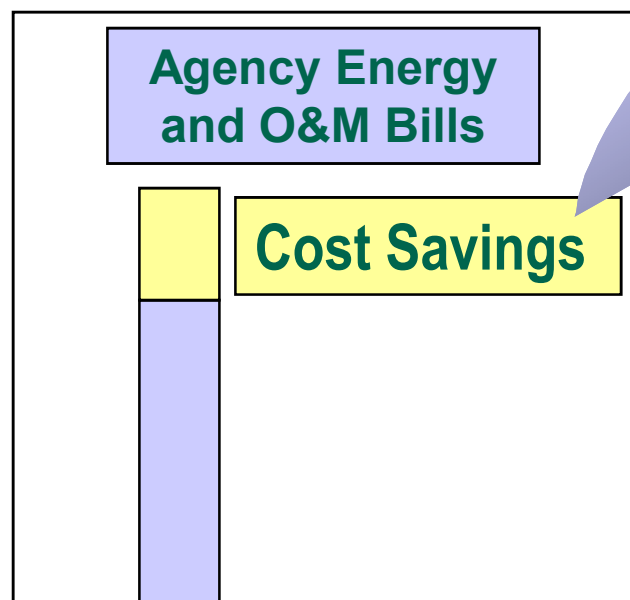
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- TO-1 — Guaranteed Annual Cost Savings & Annual Contractor Payments
(Savings and payments listed by year)
- TO-2 — Implementation Price for ECMs
(Investment costs)
- TO-3 — Performance-Period Cash Flow
(Financing info, annual cash flows)
- TO-4 — First-Year Energy & Cost Savings by ECM and Technology Category
(Savings breakout by ECM)
- TO-5 — Annual cancellation ceilings



Where the Money Comes From and Where It Goes



Improvements create savings

Savings repay ESCO

ESCO pays for project





What is included in the payments?

- Debt service (principal & interest) to repay the financier for the up-front money used by the ESCO to develop and implement the project
- Payments to the ESCO for performance-period services assigned to the ESCO in the delivery order
 - M&V, O&M, R&R
 - Insurance, training, taxes





Financed Costs of ESPC Project Development and Implementation

Amount financed =

- (Project development expense) + (indirect, profit)
- (ECM design/construction expense) + (indirect, profit)
- Financing procurement price (FPP)
- *Minus* any payments from appropriations



The Private-Sector Financier's Perspective

- After TO award, provides funds to ESCO for construction
- During construction period
 - Financier receives payments of interest only for period up to project acceptance
 - (Financed funds are held in escrow until drawn down by ESCO)
- After project acceptance — Receives payments of principal and interest until total debt is paid off





Federal Customer's Perspective

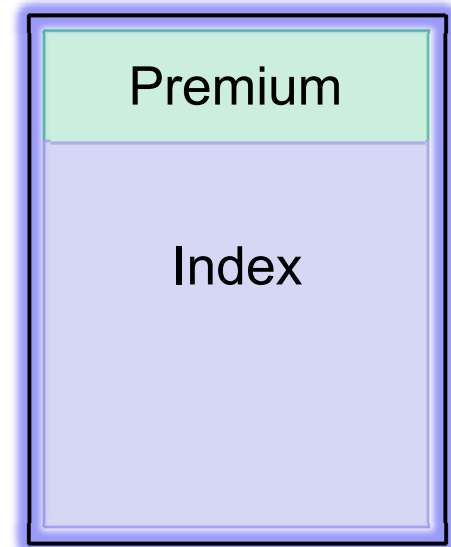
- Gets normal appropriations for energy and energy-related expenses
- May schedule savings that accrue during construction period as one-time payment to ESCO
- Makes no payments until operating project is accepted by government
- After project is accepted, savings accumulate and agency makes payments



Understanding the Interest Rate

Components of the interest rate:

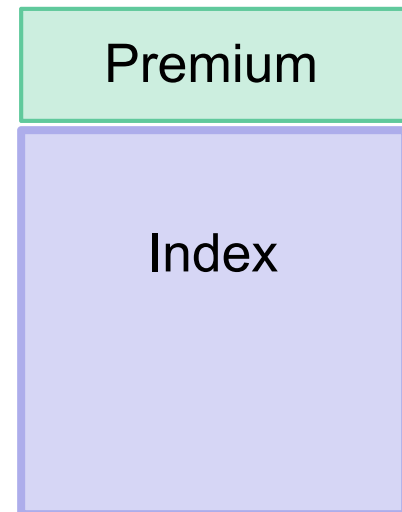
$$\begin{array}{r} \text{Index Interest Rate} \\ + \text{Premium} \\ \hline \text{Total Interest Rate} \end{array}$$





The Index Interest Rate

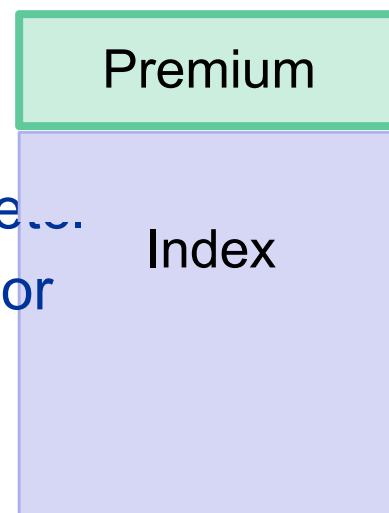
- Index interest rate — largest component
 - Represents the prevailing cost of money in the financial markets
 - Changes day to day
 - Any standard index acceptable to both agency and ESCO can be used
 - Like-term U.S. Treasury Securities is one possibility
- Web sources for rates
 - www.bloomberg.com
 - www.federalreserve.gov/releases/h15/current





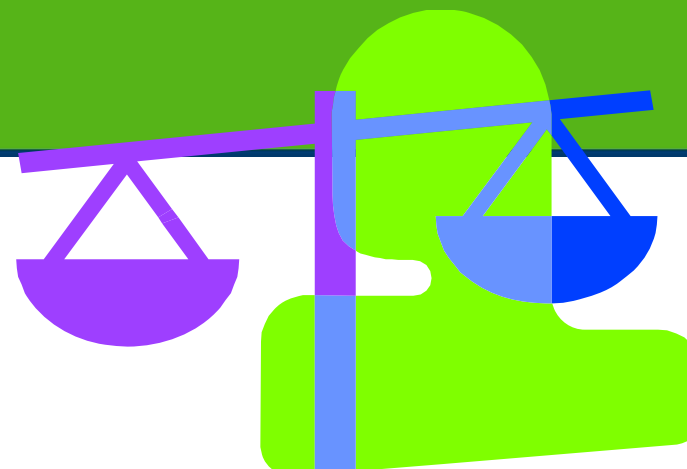
The Premium

- Premium — Basis points added to index rate (1% = 100 basis points)
- Premium covers
 - Lender's costs (legal fees, administration, etc.)
 - Hedges to lock rate in advance of closing (or instead)
 - Lender's perception of risk





Competition in Super ESPC Financing

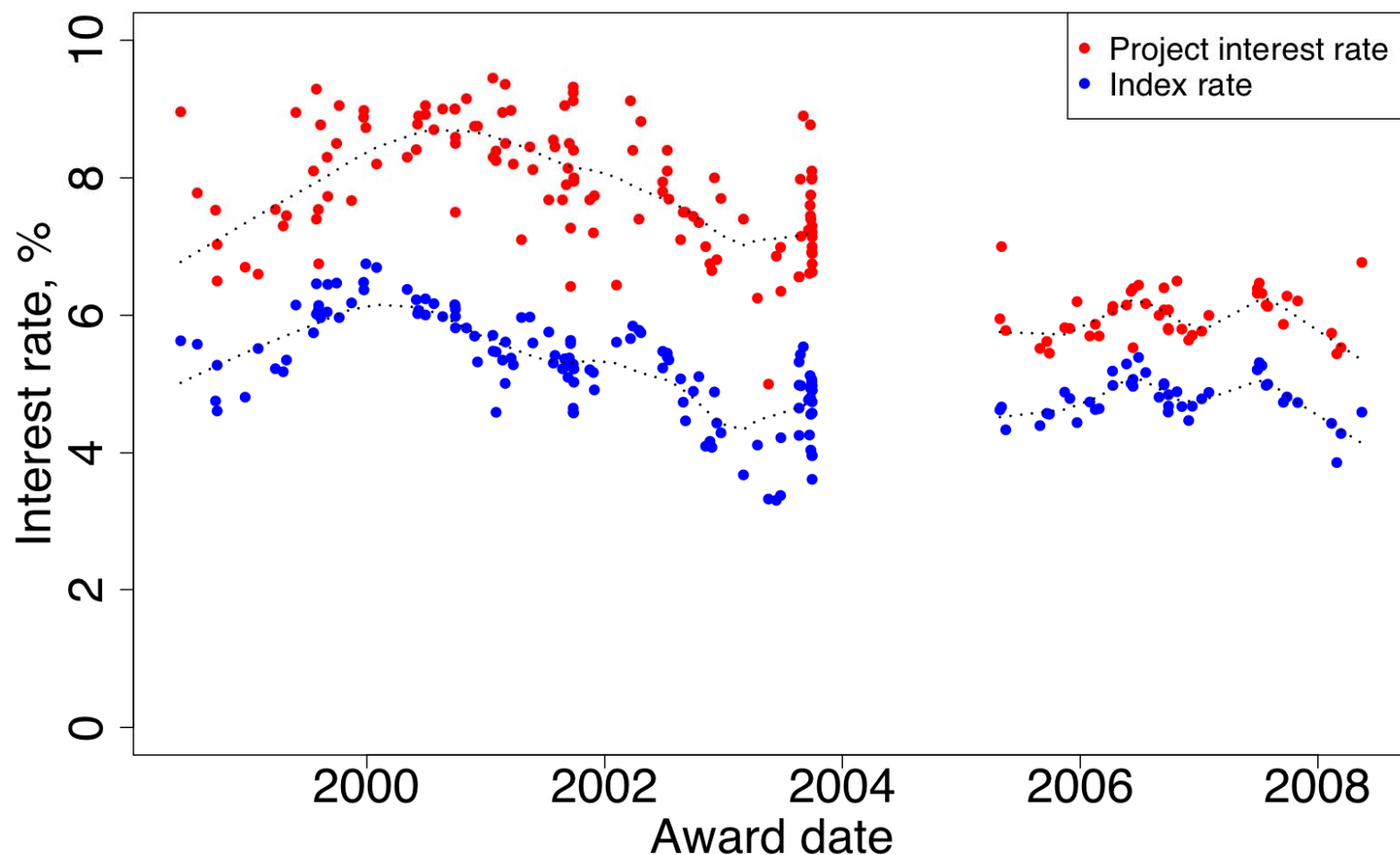


- Beginning in 2005, Super ESPC ESCOs have been required to solicit competitive financing offers
- Process and templates are defined in the contract
- Financing costs declined significantly
- Selection of financing is still the ESCO's responsibility



With Financing, Competition Works

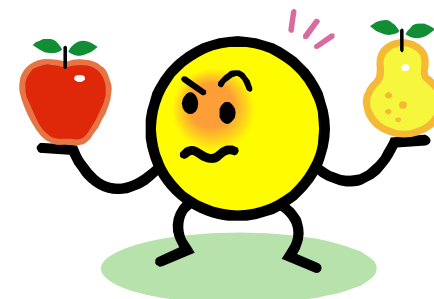
Competition has cut interest rate premiums in half





IDS and SFO Ensure that Offers are Directly Comparable

- Financiers make offers using Standard Financing Offer (SFO)
- Required contents:
 - Narrative description of financing package
 - Itemization of total amount financed
 - Period of time that offer will be honored
 - Other terms





Selection and Certification

- ESCO selects financing and provides a certified selection memo documenting process and rationale for selection
- Final proposal (and TO schedules) are based on selected offer
- Final proposal includes IDS, SFO for the selected offer, and Certified Selection Memorandum
- Selected financing offer in final proposal is evaluated by FEMP ESPC Team